PepsiCo, Inc.

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Annual Report 1974

PEPSI
64
OUNCES

Lay's
POTATO
CHIPS

Wilson
4

PIAT
BEAUJOLAIS ST-AN
APPELLATION BEAUJOLAIS CONTRO
MIS EN BOUTEILLE PAR
PIAT PÈRE & FILS
FRANCE

rthAmerican
JAN LINES

A MONSIEUR HENRI SELECTION
THE ORIGINAL
Yago
SANT'GRIA

Chee·tos
BRAND
Quick-fried
to a crackly crunch

root beer
12 FL OZ

DIET PEPSI

Wilson

WEBER
1972
Liebfraumilch

PEPSICO
TRUCK RENTAL

Fritos
BRAND
CORN CHIPS
King Size
DIP
CHIPS

SAUVIGNON
BLANC
APPELLATION
BORDEAUX
CONTROLÉE
1970
SHIPPED BY
Pierre Cartier
NEGOCIANT A BORDEAUX (GIRONDE) FRANCE
CARTIER

Wilson
Official
NBA

STOLICHNAYA
80 PROOF
RUSSIAN VODKA
РУССКАЯ ВОДКА
IMPORTED BY
MONSIEUR HENRI WINES LTD.

Teem

Doritos
BRAND
Tortilla Chips
Toasted Corn Taste

Wilson

Front cover: In a supermarket in Sochi, USSR, East-West détente becomes a tangible reality, as a young Russian boy has his first glimpse of an American soft drink, Pepsi-Cola, produced at the new state-owned Soviet bottling plant in Novorossiysk. *(See pages 21-26.)*

About PepsiCo, Inc.

The market for the diversified, consumer-oriented products and services of PepsiCo, Inc., includes people at virtually every age and economic level, throughout most of the world.

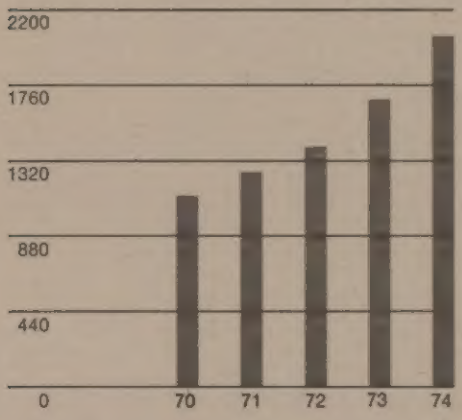
PepsiCo offers snack foods, soft drinks, wines and other beverages as an accompaniment to meals, or for a refreshment experience with recreation or other leisure-time activity; its sporting goods serve both the professional athlete and the weekend amateur; its transportation and leasing services fill the needs of both the world of industry and the individual.

In 1974, for the first time, the company's combined dollar sales passed the two-billion-dollar level —an important growth milestone for PepsiCo, especially in such a difficult year as 1974. Sales totals are, of course, but one of many measures of accomplishment; a fuller evaluation of a company's real progress must encompass other vital signs as well—including competitive position, resource allocation, cost controls, and programs for growth.

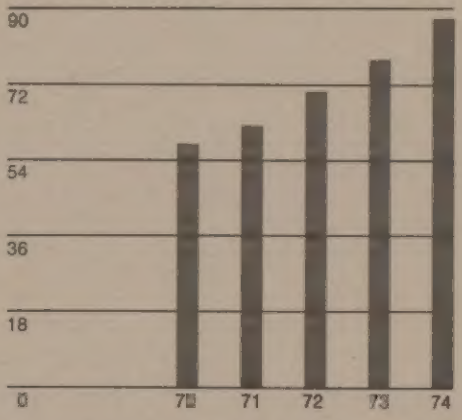
These pages contain an account of the several ways last year in which PepsiCo's management sought and achieved improvement in the long-term strength and profitability of the corporation, and worked to fulfill its obligations not only to its shareholders, employees, partners and suppliers, but also to the various societies in which the company functions.

Financial Highlights	1974	1973
Net sales and other operating revenues	**$2,080,759,000**	$1,697,924,000
Net income	**$87,419,000**	$79,596,000
Net income per share	**$3.69**	$3.36
Average shares outstanding	**23,710,000**	23,664,000
Dividends	**$30,826,000**	$26,968,000
Plant and equipment expenditures	**$104,963,000**	$87,957,000
Depreciation and amortization	**$48,001,000**	$41,634,000
Shareholders' equity	**$556,926,000**	$498,558,000

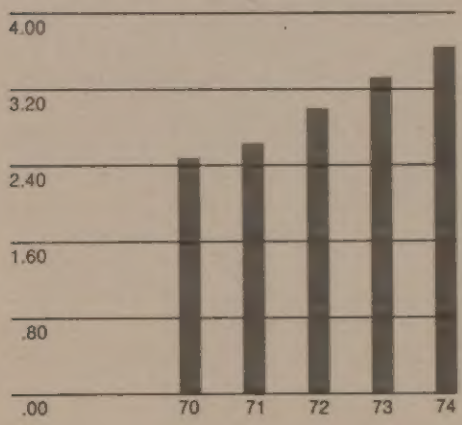
Net Sales In Millions



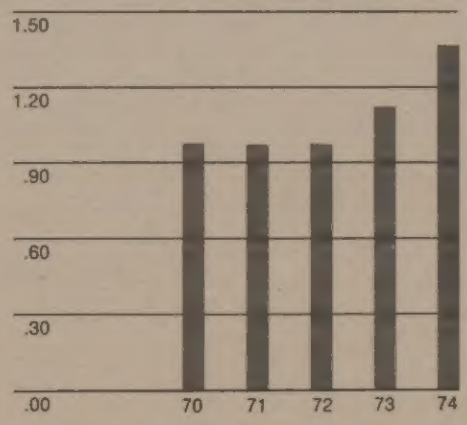
Net Income In Millions



Earnings Per Share In Dollars



Dividends Per Share In Dollars



To the Shareholders:

Donald M. Kendall, *Chairman and Chief Executive Officer*

Andrall E. Pearson, *President*

PepsiCo's sales and earnings during 1974 again achieved record levels. Sales rose 23 percent to nearly $2.1 billion. Net income was up 10 percent to $87.4 million. Earnings per share increased by 10 percent to $3.69.

Once again, very strong sales performances in all the company's lines of business enabled us to achieve these results.

Our progress in 1974 represented significant performance in the face of difficult economic situations in both the domestic market and overseas. As inflation accelerated throughout the world, consumers were squeezed by a decline in purchasing power and the rapidly increasing cost of living; but despite these conditions, we were able to improve our position through careful planning, emphasis on quality, effective marketing, additions to productive capacity, and channeling our resources to those markets offering the best opportunities for growth.

In 1974, Pepsi-Cola sales in major food stores maintained their three-year trend of continued improvement against major soft drink competition, in a period of slackened growth for the industry as a whole.

Frito-Lay's combination of popular products and a highly efficient distribution system enabled it to improve its position in the snack food business during the year. Dollar sales increased by more than 25 percent—while unit sales increased at nearly half that rate.

Similarly, Wilson Sporting Goods achieved substantial growth in sales and even greater gains in profits. The increased demand for its tennis and golf equipment led to major expansion of production facilities for these items, and their wider availability wherever sporting goods are sold.

International operations were challenged throughout 1974 by a variety of difficult economic situations around the globe—particularly in the Far East, where a combination of rapid inflation and economic stringency created sharp increases in costs and prices, and a decline in consumer buying. In some countries, such as Mexico and Venezuela, price relief granted following a long period of government controls brought temporary reductions in consumption, but those markets appear now to be moving in the direction of improved sales and earnings. Fortunately, many other areas in South America, Canada and Europe continued to show more steady growth in sales and earnings. The countries of Eastern Europe once again exhibited strong growth for Pepsi-Cola sales, and a much publicized event during the year was the opening of a state-owned plant to bottle Pepsi-Cola in the Soviet Union. This operation has gone very smoothly, and we hope that expansion into other areas of the USSR will be forthcoming.

The Transportation division once again demonstrated its ability to expand both in sales and in profit contribution in the face of soft demand in several of its markets. northAmerican Van Lines, having recognized early in the year that the moving of household goods would probably not exhibit its normal growth in 1974, was able, through intensive cost controls and careful management of its resources, to capitalize on opportunities for growth in its business of transporting items other than household goods. As a result, the division has shown excellent results in both volume and earnings.

The Leasing division has carefully expanded its activity during the year, and has shown good results on the basis of continuing operations. Net income was up slightly, after eliminating the extraordinary item in 1973. The outlook for substantial improvement in operating results is enhanced with the recent decline in interest rates.

Monsieur Henri has continued to show excellent sales growth, mainly as the result of the expanding market for Yago Sant'Gria, served by an increased supply of the product from its new winery in Spain. Stolichnaya vodka, imported from Russia, also continued to improve its position. The market for other wines, particularly the higher priced ones, declined considerably during the year. Profits were down somewhat in 1974 as the result of cost pressures and pricing problems, along with a continuing program of investment spending to expand its distribution and production capacity, in the

In Miami, the Pepsi-Cola bottler sponsors one in a series of community-wide bicycle marathons that promote fun and fitness while heightening public awareness of Pepsi-Cola (and raising the local thirst level).

expectation of continued growth in the years ahead.

United Beverages (the soft drink bottling operations formerly known as Rheingold Corp.) has made important strides in upgrading its sales and bottling operations in the four major population areas it serves: Los Angeles, Orlando, Mexico City and Puerto Rico. Important improvements have been made in all elements of the business, including production capacity, distribution, and package availability, thus stimulating the growth of sales and earnings throughout all its territories.

There was considerable expansion in the overseas snack food business during the year, and increased profitability was apparent in the longer established operations in Mexico, Spain and Venezuela, but the remaining operations continued to require substantial expenditures as an investment for the future. The snack business acquired last year in France sustained operating losses throughout the year, and in January 1975, this operation was discontinued.

Overall, the performance of our various divisions clearly indicates, we believe, the internal soundness of PepsiCo and its management direction, and its ability to cope with the various external forces which may affect our prospects for future development.

One factor which has occasioned concern on the part of some analysts is the future growth potential for soft drink sales in both the domestic and overseas markets. PepsiCo remains optimistic about the potential of both areas. In the United States, despite 1974's economic stringency, soft drinks have shown that they continue to be a strong contender for the shopper's dollar, and have continued to expand their share of total food sales. In the international market, the opportunity for further expansion—both into entirely new markets and by more intensive development of existing ones—continues to offer a tremendous field for future growth.

Another recent concern has been the effect of inflationary cost pressure on such key soft drink ingredients as sugar, which had price increases exceeding 300 percent during 1974. While the company was able to protect itself from the full impact of these costs, it was forced to reflect the major part of them in higher prices, with some negative effect on volume as a result. However, there is reason to hope that the sugar trend will be reversed to some extent during 1975, and that more reasonable cost levels will prevail.

In addition to making substantial capital expenditures each year on replacement items, PepsiCo is maintaining a program of capital investment to support the future growth of its businesses—as in capital allocations last year for the expansion of Frito-Lay, Wilson and United Beverages, which have already begun to show favorable returns. This program has entailed some expansion of our debt, with added interest costs, which increased substantially during 1974. We expect that our capital requirements for the continuation of this program in 1975 will be somewhat less—in the vicinity of $90 million; meanwhile, we will continue to modify our financing arrangements to take advantage of changes in the capital market, in order to keep interest costs as economical as possible, while allowing us to make the necessary investment to assure future growth.

We applaud the passage of the Administration's Trade Reform Act, but regret those provisions curtailing Export-Import Bank credits to the USSR. We trust that future legislation will remove this impediment to Soviet-American trade—the essential economic foundation of political detente.

The general business outlook for the coming year appears to be one which holds even greater challenges than 1974, in view of the continuing impact of inflation and recession, both at home and abroad, and the presently unforeseeable consequences of governmental actions in the economic area. Throughout the corporation, however, we have taken steps to maintain tight control over costs, and to maintain our flexibility to adapt to changing economic circumstances as the year unfolds. Based on the success attained in a difficult 1974, we feel confident that results in 1975 will demonstrate the continued vitality and resourcefulness of the corporation.

Reflecting that confidence, the Board of Directors, in July, approved an increase of 16.7 percent in the annual dividend of PepsiCo's stock, to $1.40 per share.

We wish to express our sincere appreciation to our fellow director, George Champion, who retired from the Board during 1975 after several years' distinguished service, and note with deep regret the death, early in 1975, of our fellow director, Angus M. Alston, who had served with great value to the company's progress since joining our Board in 1968.

Donald M. Kendall
Chairman of the Board
and Chief Executive Officer

Andrall E. Pearson
President

March 1, 1975

PEPSI
BICYC

Soft Drinks

Pepsi-Cola's sales progress continued during the year, particularly in food stores—where Pepsi-Cola by year's end had registered its thirty-eighth consecutive month of competitive improvement.

The new Pepsi-Cola advertising campaign launched at the start of 1974 achieved excellent results: in consumer tests, the new copy theme ("Join the Pepsi People—Feelin' Free") registered exceptionally high scores in acceptance, recall and response. New advertising for Diet Pepsi-Cola and Mountain Dew also proved effective, contributing to significant increases over the previous year's volume for both products.

The company's field force, which maintains close continuing liaison with the nearly 500 independent franchised bottlers who market the product locally across America, has been given increased decision-making flexibility in allocating company support for bottler programs. Together with the aggressive marketing effort of the bottler group, this has greatly facilitated Pepsi-Cola's ability to capitalize on local opportunities.

The year's successful sales performance was achieved by allocating a maximum of available financial and manpower resources to creative innovations aimed at protecting and enhancing share position in all market segments.

One such program called for wider distribution of packages designed for consumer value appeal. In many areas, the traditional six-pack carrier for cans was replaced by an eight- or 12-pack, and more areas introduced 48- and 64-ounce bottles—usually sold at a price that offered a clear value incentive. Such quantity-purchase packages place more product in homes available for convenient "impulse" consumption. A number of fresh promotional ideas supporting this and other marketing objectives were successfully tested during the year, and will be launched full-scale in 1975.

Pepsi-Cola's virtually universal distribution in food stores and the "take-home" market generally was complemented by substantial gains during the year in the "on-premise" market. The company's Syrup Sales department made good progress in gaining wider product distribution, especially in the large fast-food chain segment of the industry.

Pepsi-Cola Company (like all of PepsiCo's divisions) has long sought as a matter of policy to monitor job openings and assure that they are made available to applicants from a wide spectrum of backgrounds, without regard to sex, religious belief or ethnic origin. As a result, more positions at higher levels of responsibility are being filled by women and minority group members.

In the area of environmental concern, Pepsi-Cola continues its strong support of the anti-litter educational efforts of Keep America Beautiful, Inc., as well as the broader approach of the National Center for Resource Recovery, a non-profit industry-and-labor organization set up to provide research and development of systems approaches to the larger problem of waste management and materials conservation. PepsiCo's chairman, Donald M. Kendall, has served for the

In the present climate of consumer awareness, Pepsi-Cola's reputation is more zealously guarded than ever. A staff of skilled traveling technicians maintains a program of analysis to assure adherence to the highest standards.

past several years as the chairman of NCRR.

Meanwhile, the company continues to pursue its development program to create a plastic bottle with superior characteristics in appearance, lightness of weight, break resistance, flavor preservation, and safe incineration. A market test of a 32-ounce bottle manufactured from an improved polyester resin was begun late in the year in northern New York State, to determine its feasibility for general use.

Snack Foods

Frito-Lay enjoyed another very successful year, maintaining its strong competitive position in the important snack food market.

Growing consumer demand for the division's products resulted in the addition of three new plants—in Mississippi, Pennsylvania and New York State.

Two products introduced during the previous year—Lay's brand sour-cream-and-onion flavored potato chips and Lay's brand enchilada dip—expanded their distribution base in 1974.

The company's Process Engineering department, a recently augmented group of 45 technical specialists in various disciplines, is working to further develop innovative ways to reduce all effluents from manufacturing operations to lower and lower minimums, well within all current regulatory standards. For example, an "air-scrubbing" device unique in the industry that removes potentially objectionable cooking odors from a plant's outgoing air, is part of all new plant construction and is being incorporated into existing plants. This same group is successfully work-

Frito-Lay's multi-grain snack product, Prontos, placed on sale during 1974, appeals to those with a taste for "natural" foods and a yearning to return to "the good life."

ing on ways to reduce the decibel level of "noise pollution" produced by manufacturing operations.

Frito-Lay's research division continues to explore the feasibility of using alternative materials in production, to guard against short-supply conditions that may recur.

International Soft Drinks

Among the many areas that demonstrated encouraging sales progress for Pepsi-Cola in the 133 countries and territories where it is available outside the United States were the nations of Eastern Europe, where sales rose by 50 percent for the second consecutive year. The opening of the Soviet Union's first plant for the production of an American soft drink, now bottling Pepsi-Cola in Novorossiysk, was followed later in the year by the product's entry into the German Democratic Republic ("East Germany"). Operations in longer-established markets such as Poland, Yugoslavia, Rumania and Czechoslovakia added to their production capacity and distribution coverage.

Other overseas markets that reported major sales increases included the Middle East, particularly Libya and Iran, and the Latin American nations of Argentina, Brazil and Colombia. Sales in Colombia expanded greatly when a leading bottler decided to begin producing Pepsi-Cola at seven of his plants that had previously bottled only flavors.

Productive capacity was increased with the inaugural of a company-owned canning plant in the Federal Republic of Germany, to supply European bottlers with this increas-

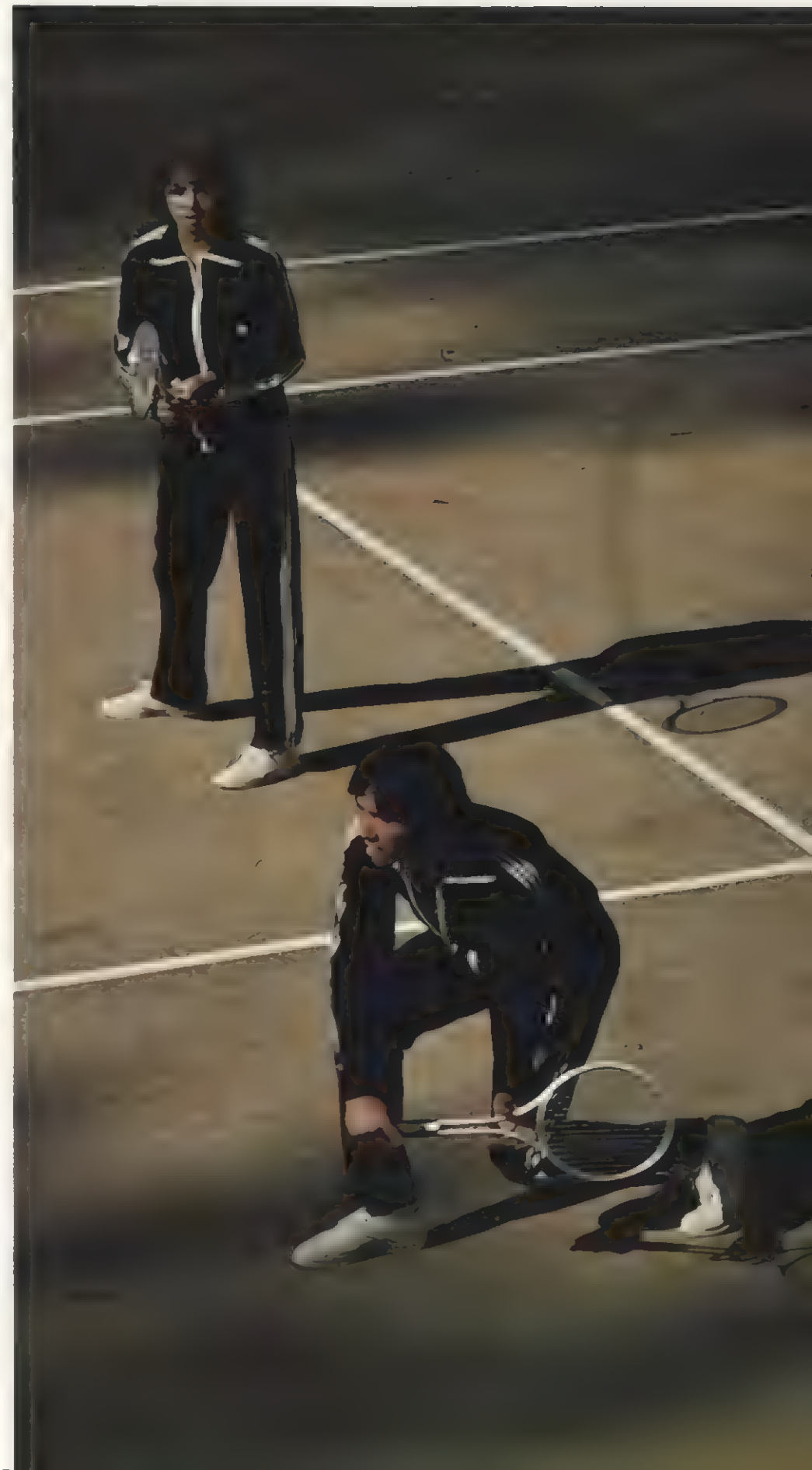
Among Wilson's 1974 product line additions were a new Match Point aluminum tennis racket and attractive new tennis warm-up suits.

ingly popular form of convenience packaging; a company-owned bottling and canning facility in Halifax, Nova Scotia, to supply Canada's Maritime Provinces; and two new high-speed bottling lines, located in a completely modernized bottling room, at the company's plant in Quezon City, the Philippines. Production also began during the year at a massive new franchisee-owned plant serving the Tokyo area.

While the major thrust abroad continues to be directed toward the principal brand, Pepsi-Cola, renewed emphasis is being given the flavor market. The company's primary flavor brand, Mirinda, has earned a strongly established position in many countries, and is itself one of the leading names in the international soft drink market. A wide variety of formulations is available, tailored to carefully researched national taste preferences, including orange, grape, lemon-lime, grapefruit, plum, apple, strawberry, and cloudy lemon, plus tonic and soda mixers. In some countries, Pepsi-Cola bottlers also offer specialty flavor items, such as Germany's *Schwip-Schwap,* an orange-flavored cola, and the Argentine tonic beverage called *Paso de los Toros.*

A long-range effort is in progress throughout the world to standardize Pepsi-Cola's visual identity in all forms, including the redesigned trademark logo introduced within the last few years—providing a universally recognizable brand image for the product worldwide.

The International Division is pursuing an aggressive growth program, seeking wider availability in countries which are not yet totally franchised as well as entry into new



Yago Sant'Gria, America's most popular imported wine, accompanied more and more leisure-time activities during the year.

Top: Becky Holder, Assistant Brand Manager, is one of the women who now hold a variety of management jobs in the Frito-Lay organization

Bottom: The single-portion quick-snack line introduced by Frito-Lay in 1973 for convenience stores and on-premise outlets has met with encouraging public acceptance, and these products are now available in such accounts nationally.

national markets—among them major population areas. In order to fill in these "blank areas" on the worldwide availability map, it must persevere, sometimes for years, against such obstacles as a lack of available local investment capital, the absence of a disposable income level sufficient to sustain a competitive soft drink industry, and difficulties in obtaining the requisite governmental approval. At the same time, a continuing effort is being made to assure that all present franchise holders maintain a strong commitment to expansion of their businesses, beyond merely filling market demand. Where necessary, franchises have been reissued to more capable and aggressive new owners, in order to protect a market's potential growth.

Pepsi-Cola bottling operations were inaugurated during the year at the following locations: Gosford and Lithgow, Australia; Grieskirchen and Salzburg, Austria; Florianopolis, Brazil; Chiquinquira, Girardot, Ibague, Mariquita, Neiva, Tunja and Villavicencio, Colombia; Kosice, Czechoslovakia; Rostock, GDR; Kirkuk and Mosul, Iraq; Parma, Italy; Islamabad, Pakistan; Poznan and Wroclaw, Poland; Bucharest, Rumania (a second plant); and Novorossiysk, USSR.

Sporting goods

In 1974, Wilson Sporting Goods registered impressive growth in both sales and profits.

One reason was the steadily growing consumer demand for its golf and tennis equipment, now available in greatly increased supply from newly expanded production

A growing part of northAmerican Van Lines' operations is the transporting of sensitive electronic instruments, using specially developed equipment and handling techniques that carefully protect this fragile cargo in transit.

facilities, and a number of team sports products. Another contributing factor was management's ongoing program of restructuring its product lines—to enhance their consumer appeal, put maximum effort behind proven successful items, and expand into promising new fields.

Among the new Wilson golf products introduced during the year was a line of clubs whose shafts contain graphite—a strong, flexible, lightweight material that imparts a "whip action" to the golfer's swing. Two new lines of clubs for women were introduced, plus the Envoy line of medium-priced commercial golf clubs, made with a newly developed casting process that permits marked improvement in the shape and design of clubheads for irons. A new line of premium quality Haig 90 golf balls offers superior consistency and performance advantages.

Sales were strong for Wilson's tennis rackets—including the T2000 and T3000 steel racket, the Autograph line and less expensive wood rackets, and the moderately priced Match Point aluminum racket—as well as for Wilson tennis balls and the Red W clothing line.

Wilson continued to emerge as a major international sporting goods marketer: facilities expansion was completed during the year at the factory producing golf equipment in Irvine, Scotland, and the company established a joint venture with a Japanese firm to act as its sales and marketing arm for golf equipment in Japan (where Wilson is the leading imported brand)—as well as to provide a base for growth opportunities there in

The newest member of the Wilson staff of professional athlete advisers is 19-year-old golf star Laura Baugh, who uses and endorses the newest line of Wilson clubs designed especially for women.

such other increasingly popular sports as tennis.

To provide faster deliveries at lower cost for items such as team sports equipment. Wilson opened two new regional warehouses during the year in New Jersey and Tennessee, enabling it to preserve its valuable brand presence in this prestige market on a more satisfactory basis.

During the year, the outstanding NFL football star, O. J. Simpson, joined the distinguished athletes who form the Wilson staff of professional advisers (a group which also includes the winners of the 1974 Wimbledon tennis championships, Jimmy Connors and Chris Evert, and the winner of the U.S. Open Golf Championship, Hale Irwin).

Transportation

In 1974, following its strategic plan to maximize long-term growth of revenue and income, north-American Van Lines maintained its record of high profitability and improved its competitive position.

Improvement in NAVL's operations, despite the anticipated softening of demand in the household goods market and inflationary cost increases for fuel and equipment, was produced by management's continued emphasis on operating cost controls and vigorous pursuit of business opportunities in other segments of motor transportation, for example, transporting finished manufactured items such as computers and new furniture from factory to distribution points.

NAVL took the lead in developing an entirely new and far more

Pepsi-Cola's "presence" in food stores gained from the introduction during 1974 of a commanding new end-aisle display unit, the Maximizer.

efficient procedure for accurately estimating the weight and volume of household goods shipments —a system which could reduce the amount of over- or underestimating error by as much as 50 percent, contrasted with the methods currently used throughout the moving industry. The company has been given formal approval by the Interstate Commerce Commission for a field test of this new system in 1975, in order to demonstrate its potential for greatly improving customer service.

With a similar objective, NAVL has instituted a new "Tell It Like It Is" program of customer communications, intended to provide consumers with more accurate and realistic commitments regarding the scheduling of pick-up and delivery of their shipments, thereby reducing the possibility of customer dissatisfaction and complaints resulting from what could be overly optimistic promises. The possible competitive disadvantages of such a candid policy, it is felt, are more than outweighed by the continuing improvement in NAVL's image of reliability and frankness. In the past year, customer service complaints against NAVL dropped sharply.

NAVL already has 30 regional service offices outside the United States, with additional agent affiliations that enable it to provide moving service between any two points in the world. The division is seeking to expand its international position in the van line and motor transportation businesses, through both the acquisition and start-up of operations in high-potential areas of the world.

PepsiCo Truck Rental, although faced with a decline in market demand coupled with sharp cost increases, succeeded in outper-

In Mexico City, a route salesman prepares to deliver an order of Sabritas potato chips, the country's most popular brand.

forming the rest of its industry during the year, mainly as the result of effective cost reduction and containment programs, and improved sales performance. Conducting business as usual during the worst period of the fuel shortage was itself a major accomplishment, involving the identification of additional sources of supply and alert reallocation of fuel to areas in need on a day-to-day basis.

A major accomplishment of the Mobilease operation—which made substantial gains in its profit contribution—was the delivery of 600 units of relocatable structures to construction companies building the Alyeska oil pipeline connecting the northern and southern shores of Alaska.

Mobilease has redefined and widened the scope of its available market to include virtually all nonresidential construction projects, as the gap widens between the costs of ready-to-use space and on-site construction. A new generation of relocatable units developed by Mobilease should open up a broad area of new opportunities in this field, and a major national marketing thrust is being implemented toward that end.

Leasing

The "tight-money" conditions that prevailed in the economy during 1974 created an environment in which the advantages of leasing, rather than purchasing, equipment items needed for improved productivity became increasingly attractive to many businesses—including those in 65 Standard Industrial Classifications served by Chandler Leasing and Rental Electronics Inc., the principal oper-

A new promotional campaign for Stolichnaya vodka, imported from the Soviet Union by Monsieur Henri, urges Americans (like these visiting the art galleries in Manhattan's SoHo district) to drink it the way the Russians do—all by itself, ice-cold.

PepsiCo Transportation's Mobilease division supplied these relocatable units to the construction companies building the new Alaska oil pipeline.

ations of PepsiCo Leasing Corporation. These conditions contributed to a marked improvement in the division's sales. Of equal importance were continuing measures taken by management in a program oriented toward new business development and a more aggressive marketing posture.

The initial phase of this program was a marketing research study made for Chandler in 1973 among leading American businesses to identify and locate an actual target group for future media campaigns, telephone contact, brochure mailings, and direct sales approaches. The use of these contemporary techniques represented a significant innovation for an industry the bulk of whose sales come typically from the customer's solicitation of a lease arrangement.

In 1974, the first full year of advertising in selected publications aimed at financial decision-makers in the target audience produced an appreciable gain in prospect awareness and receptivity, as well as the generation of substantial new business for Chandler in a number of industries.

A realignment of Rental Electronics Inc. under capable new management and utilization of sister-company marketing resources and techniques have produced a noticeable improvement in those operations as well.

The variety of items the division now leases includes machine tools, office furniture, marine containers, airport Jetways, electronic test equipment—even a gas transmission pipeline in Wyoming.

Wines and spirits

Monsieur Henri Wines, Ltd., continues to occupy the leading position in the imported wine market.

It expanded that lead in 1974 with new record levels in dollar sales and unit volume. Substantial cost pressures, pricing problems, and continued investment spending, however, interrupted the division's growth in profits.

One major success was the growing popularity of what is clearly America's largest selling imported wine, Yago Sant'Gria—now being produced at a new and much larger winery in Spain, owned by Monsieur Henri in partnership with the Spanish producer.

As the sales and availability of Stolichnaya, the only Russian-made vodka sold in America, continued to expand according to plan, agreement was reached during the year with the Soviet government for Monsieur Henri to import the first Russian wine to be sold in America: Nazdorovya premium-quality champagne, sales of which are scheduled to begin sometime during 1975.

Construction was completed in 1974 of a new, modern, temperature-controlled warehouse and office facility at Little Ferry, New Jersey, to serve Monsieur Henri's distribution operations in its leading market area, metropolitan New York City.

PepsiCo Foods International

The well established snack food operations in Mexico, Spain and Venezuela all showed excellent progress during the year. In Mexico, Sabritas potato chips bettered their clear leadership of the market with a sales increase of 43 percent. In Venezuela, a variety of food items that includes pasta and dairy products recorded a 25

The Pepsi-Cola business in Mexico City—one of four operations acquired in the purchase of Rheingold Corp.—has surged ahead under the company's new management direction.

percent total sales increase.

Operations in all countries served are being improved by the addition of new trucks bearing strong trademark identification, upgrading of quality assurance standards, fresh package designs, more effective advertising campaigns, an intensive program of personnel training at all levels, and special attention to environmental protection measures for all production facilities.

In all these improvement efforts, the division is benefiting greatly from the broad background of experience available throughout the PepsiCo organization in consumer product marketing and professional management expertise. John Sculley, now the President of this division, previously served for several years as Pepsi-Cola Company's Senior Vice President for Marketing.

The business acquired during the year in Brazil is experiencing manpower and facility changes as planned in order to reach the growth goals set for this new venture in a rapidly growing part of the world. The business acquired last year in France failed to make satisfactory progress toward its performance objectives, and operations there were terminated in January 1975.

ПЕПСИ-КОЛА

Top: In Moscow, General Secretary Brezhnev greets Mr. Kendall in his office for extended discussion of Soviet-American trade. (Behind Mr. Kendall: Soviet Deputy Minister of Foreign Trade Alkhimov; interpreter Viktor Sukhodrev.

Bottom: On chartered bus carrying PepsiCo group to the new plant's dedication, advertising posters prepared for the product's introduction were a unique blend of the familiar and (with their Russian Cyrillic letters) the exotic.

When PepsiCo's Don Kendall arrived at the Kremlin last June to visit General Secretary Leonid Brezhnev—and present him with the first bottle of Pepsi-Cola produced in the USSR—it would have been difficult to say which man was more pleased and proud.

Mr. Kendall had just come from ceremonies in the Black Sea port city of Novorossiysk, where he and his fellow PepsiCo directors had witnessed the formal dedication of the Soviet Union's first facility built to produce an American consumer product, Pepsi-Cola. For Mr. Kendall, long an advocate of normalized commercial relations with the Soviets (he is co-chairman of the US-USSR Trade and Economic Council), the event symbolized the broader economic ties he considers an essential underpinning of political détente between the two powers.

For Mr. Brezhnev, too, Pepsi-Cola's presence in the market-

In the Novorossiysk plant, a young worker conducts visual inspection, checking for product's proper fill height, appearance, and freedom from impurities.

New taste for a Russian worker.

In a supermarket in Sochi, an accommodating store employee at the checkout counter opens a bottle of Pepsi for a customer who wants his refreshment without delay.

place was a welcome fact; it constituted visible evidence of his constructive efforts to launch a new era in his country's foreign relations, and to develop a consumer economy offering his people a wider range of the amenities of life.

As unprecedented posters advertising a brand-name product began appearing throughout the initial distribution area, as the first of an anticipated 60 million bottles yearly began moving down Novorossiysk's production line past the watchful eye of an alert, attractive quality control inspector, and as Soviet citizens in stores, restaurants and recreation centers began joining the more than two billion people around the globe who consider Pepsi "their" drink, the abstract concept of détente rapidly took on a concrete dimension of reality.

In an outdoor cafe in Krasnodar, a young couple joins the world's more than 2,000,000 Pepsi drinkers.

Revenue & Earnings. Substantial gains were made in both revenues and earnings to achieve new records in the fiscal year ended December 28, 1974. Sales and other operating revenues increased 23% to nearly $2.1 billion, while net income rose 10% to $87.4 million. Earnings per share at $3.69 were 10% above the $3.36 earned in 1973.

Inflation both at home and abroad had a considerable impact on the trend of costs, prices, and profits in 1974. About two-thirds of the growth in dollar sales resulted from price increases required to recover as much as possible of the sharp increases in all categories of expense. Cost increases were particularly large in such raw materials as sugar, corn, potatoes and vegetable oils and were significant in packaging, labor, and freight. Interest expense also rose sharply with the combined effect of higher rates and larger borrowings. The profit growth was also affected by the operating losses incurred in the French snack food operations throughout 1974. In addition, these operations were discontinued in January 1975 and termination costs were fully provided for in the 1974 financial statements.

The long-term growth rate for net income and E.P.S. continued in line with the recent corporate trend of 10%. For the five-year period 1969 to 1974, the average compound growth rate was 11.0% for net income and 9.7% for E.P.S. Even with the substantial price increases and stringent control of costs, the after-tax profit margin narrowed from 4.5% in 1973 to 4.1% in 1974. While profits could not keep pace with the inflated growth of sales, they did rise somewhat faster than the estimated growth in real volume. Thus profit per dollar of sales declined while profit per unit of volume rose.

Stock Price and Dividends. The market price range for PepsiCo stock on the New York Stock Exchange and the dividends declared in each quarter of the last two years are set forth in the table below. While quarterly dividends were increased about 30% in the period from 27¢ to 35¢, the stock price declined sharply in line with the general market trend. As of February 27, 1975, the price had risen to 53⅝.

Quarter	Market Price Range ($) High	Low	Close	Dividend Declared
1973—				
1st qtr.	89¾	81⅝	83⅛	27¢
2nd qtr.	86¼	79⅛	81⅞	27¢
3rd qtr.	86¼	78⅛	81⅝	30¢
4th qtr.	89	64	68½	30¢
1974—				
1st qtr.	71¾	56⅛	63⅝	30¢
2nd qtr.	65	50¾	64¾	30¢
3rd qtr.	64⅞	39¾	42⅝	35¢
4th qtr.	47½	29¼	39¼	35¢

Lines of Business. Gains were made in sales and revenues in all lines of business and were above average in the

food and sporting goods lines. While the sales increases reflected substantial rises in price, all of the lines achieved gains in real volume also. In contribution, exceptional gains were made in the sporting goods and transportation lines. Profit growth in the food line was slowed somewhat by the sharp cost increases and resultant margin squeeze in domestic snack food operations and by the operating losses sustained in the French snack food operations. Leasing activities reflected a decline in contribution principally due to extraordinary gains from sale of certain leasing operations in 1973.

Sales and Revenues

	1974	1973[1]	1973[2]	1972	1971	1970
Beverage	45%	47%	44%	45%	46%	46%
Food	31	29	31	30	29	29
Transportation	10	10	11	10	10	11
Sporting Goods	10	10	10	10	10	9
Leasing	4	4	4	5	5	5
Totals	100%	100%	100%	100%	100%	100%

Contribution to income before income taxes, corporate interest and expenses

	1974	1973[1]	1973[2]	1972	1971	1970
Beverage	56%	56%	54%	58%	61%	63%
Food	22[3]	25	26	26	25	24
Transportation	8	7	7	7	7	7
Sporting Goods	13	10	11	7	6	6
Leasing	1	2	2	2	1	—
Totals	100%	100%	100%	100%	100%	100%

[1]Including soft drink operations acquired from Rheingold Corp.
[2]Excluding soft drink operations acquired from Rheingold Corp.
[3]Includes operating losses of the French snack food subsidiary but excludes termination costs associated with discontinuing this subsidiary in January 1975.

International Operations. PepsiCo's operations outside the United States for the two years 1973 and 1974 accounted for 22% of the total worldwide sales and revenues and for 25% and 24%*, respectively, of total contribution to income before taxes and corporate interest and expenses. The drop in percentage of contribution in 1974 resulted entirely from the operating losses incurred in the French snack food operations, which were subsequently discontinued.

While there were substantial currency fluctuations in 1974, PepsiCo was able to carefully manage its exposures and the protection of its overseas assets. As a result, the changing exchange rates had a negligible effect on PepsiCo's results in 1974.

*Excluding French snack food termination costs.

Capitalization and Financing. Total consolidated debt of PepsiCo at year end was $466,408,000, up from $347,394,000 at year end 1973. The additional debt was utilized for working capital to support record sales levels and an aggressive capital expenditure program. PepsiCo took steps to lengthen its debt maturities through the issuance in May 1974 of $75,000,000 of eight-year notes and an additional $100,000,000 of ten-year notes in early 1975. The proceeds of these issues were applied towards the reduction of short-term debt, primarily commercial paper and bank borrowings. PepsiCo's overall financial strength continued to increase with shareholders' equity rising to $556,926,000.

	1974	1973
	(in thousands)	
Current borrowings—domestic	$ 69,237	$ 60,031
—foreign	45,535	58,050
Total Current	114,772	118,081
Long-term debt—current	2,638	6,349
—non-current		
—senior	293,435	167,401
—subordinated	55,563	55,563
Total long-term debt	351,636	229,313
Total interest-bearing debt	$466,408	$347,394

(See note 4 on page 34 for additional details).

Capital Expenditures. In 1974, PepsiCo continued a strong capital investment program to support the future growth of the business. Total capital spending (exclusive of leasing subsidiaries) increased substantially from the $88 million level in 1973 to $105 million in 1974. The increased rate of spending reflected primarily the expansion of capacity in plant and distribution facilities to meet the rising demand for the company's products and services, particularly in the food, sporting goods, and transportation areas. In view of the major increments of capacity included in the 1974 program, the capital spending in the coming year will continue at a strong but slightly lower level than in 1974, approximately $85 to $90 million.

Income Tax Rates. The tax rate applicable to the consolidated pretax profits was 42.1% in 1974, down substantially from the 45.6% applicable in 1973. As a result of the decision to discontinue the French snack food subsidiary in January 1975, tax benefits were recorded in the fourth quarter of 1974, without which the effective 1974 tax rate would have continued at approximately 44%, in line with the prior quarterly reports. The rate declines resulted principally from a greater proportion of the 1974 profits being attributable to foreign operations having aggregate tax rates below the U.S. rate of 48%. In addition, investment tax credits were larger in 1974 than in 1973, and using the amortization method adopted by the company in 1971, substantial investment tax credits were also carried forward to future years.

Consolidated Statement of Income and Retained Earnings (In thousands)

PepsiCo, Inc. and Subsidiaries
Years ended December 28, 1974 and December 29, 1973

	1974	1973
Net Sales and Other Operating Revenues	**$2,080,759**	$1,697,924
Costs and Expenses		
Cost of sales and services	**1,193,025**	930,717
Marketing, administrative and other expenses	**715,347**	612,114
Interest expense	**41,079**	24,434
Interest income	**(14,575)**	(10,195)
	1,934,876	1,557,070
	145,883	140,854
Provision for United States and foreign income taxes (including deferred: 1974—$10,200; 1973—$10,400)	**61,485**	64,263
	84,398	76,591
Equity in net income of leasing subsidiaries	**3,021**	3,005
Net Income	**87,419**	79,596
Retained earnings at beginning of year	**406,447**	353,819
Cash dividends (per share: 1974—$1.30; 1973—$1.14)	**(30,826)**	(26,968)
Retained earnings at end of year	**$ 463,040**	$ 406,447
Net Income Per Share	**$3.69**	$3.36

See accompanying notes.

Consolidated Balance Sheet (in thousands)
PepsiCo, Inc. and Subsidiaries
December 28, 1974 and December 29, 1973

	1974	1973
Assets		
Current Assets		
Cash	**$ 14,875**	$ 16,255
Marketable securities, at cost (approximates market)	**109,540**	105,597
Notes and accounts receivable, less allowance: 1974—$11,876; 1973—$7,745	**254,748**	196,778
Inventories	**267,041**	182,866
Prepaid expenses	**28,830**	14,115
	675,034	515,611
Investments and Long-Term Receivables		
Leasing subsidiaries—at equity	**79,104**	71,295
Long-term receivables and other investments	**30,489**	39,052
	109,593	110,347
Property, Plant and Equipment		
Land	**30,192**	27,427
Buildings	**152,268**	134,137
Machinery and equipment	**419,194**	370,004
Bottles and cases	**59,902**	53,885
	661,556	585,453
Less accumulated depreciation	**230,506**	209,314
	431,050	376,139
Goodwill—cost in excess of net assets of companies acquired	**121,197**	120,890
Other Assets	**43,155**	26,677
	$1,380,029	$1,149,664

See accompanying notes.

	1974	1973
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes payable (including current installments on long-term debt)	**$ 117,410**	$ 124,430
Accounts payable and accrued liabilities	**214,129**	201,170
United States and foreign income taxes	**31,175**	22,025
Customers' deposits on bottles and cases	**25,314**	19,553
	388,028	367,178
Long-Term Debt	**348,998**	222,964
Other Liabilities and Deferred Credits	**15,577**	13,264
Deferred Income Taxes	**70,500**	47,700
Shareholders' Equity		
Capital stock, par value 16⅔¢ per share; authorized 30,000,000 shares; issued and outstanding: 1974—23,722,950 shares; 1973—23,684,222 shares	**3,954**	3,947
Capital in excess of par value	**89,932**	88,164
Retained earnings	**463,040**	406,447
	556,926	498,558
	$1,380,029	$1,149,664

Consolidated Statement of Changes in Financial Position (in thousands)

PepsiCo, Inc. and Subsidiaries
Years ended December 28, 1974 and December 29, 1973

	1974	1973
Financial Resources Provided:		
Operations		
Net income	**$ 87,419**	$ 79,596
Depreciation and amortization	**48,001**	41,634
Deferred income taxes	**10,200**	10,400
Other	**2,333**	1,641
	147,953	133,271
Capital stock (including conversion of debentures)	**1,775**	5,162
Long-term debt	**197,137**	21,443
Property disposals	**11,191**	7,939
Sales of subsidiary companies and other investments	**—**	9,617
	358,056	177,432
Financial Resources Applied:		
Dividends	**30,826**	26,968
Leasing subsidiaries	**7,809**	(897)
Purchase of Rheingold Corp.'s minority interest	**—**	7,373
Other companies purchased for cash	**2,510**	9,965
Plant and equipment	**104,963**	87,957
Long-term debt	**71,103**	22,791
Bottles and cases—net	**6,017**	1,426
Other	**(3,745)**	21,433
	219,483	177,016
Increase in working capital	**$138,573**	$ 416
Increase (Decrease) in Working Capital, by Element:		
Cash and marketable securities	**$ 2,563**	$ 27,758
Notes and accounts receivable	**57,970**	56,264
Inventories	**84,175**	48,850
Prepaid expenses	**14,715**	(1,979)
Notes payable	**7,020**	(73,880)
Accounts payable and accrued liabilities	**(12,959)**	(61,505)
United States and foreign income taxes	**(9,150)**	11,297
Customers' deposits on bottles and cases	**(5,761)**	(6,389)
Net increase in working capital	**138,573**	416
Working capital at beginning of year	**148,433**	148,017
Working capital at end of year	**$287,006**	$148,433

See accompanying notes.

Notes to Consolidated Financial Statements

Note 1—Summary of significant accounting policies.
Principles of Consolidation. All domestic and foreign subsidiaries, except leasing subsidiaries, have been consolidated. Leasing subsidiaries are carried at equity; see Note 10 for their condensed financial statements.

Foreign Operations. In general, assets and liabilities are translated into U.S. dollars at year-end exchange rates, except for inventories and property, plant and equipment, which are translated at rates in effect at the time these assets were acquired. Income accounts are translated at rates prevailing during the year, except that inventories charged to cost of sales and depreciation are based on the historical equivalent dollar costs of the related assets. Foreign exchange gains and losses, including those arising from translation and forward exchange contracts, are included in income, except that translation adjustments pertaining to long-term debt are deferred and amortized over the remaining life of the debt.

Inventories. Inventories are stated at the lower of cost (computed on the average or first-in, first-out method) or net realizable value.

Property, Plant and Equipment. Land, buildings and machinery and equipment are stated at cost. Depreciation is calculated principally on a straight-line basis over estimated service lives of the respective assets. Upon the sale or retirement of property, the property accounts and the related depreciation reserves are appropriately adjusted and any profit or loss is reflected in income. Maintenance and repairs are charged to expense as incurred.

Valuation of bottles and cases is based on periodic physical inventories of those in-plant and on estimates of those in-trade. In-plant and estimated in-trade breakage is charged to cost of sales. In general, returnable bottles and cases of domestic operations are reduced to deposit value. As to foreign operations, returnable containers purchased prior to 1974 are carried at cost and those purchased since December 29, 1973 are carried at deposit value. The effect of this change in 1974 was not material to PepsiCo's reported results of operations.

Goodwill. Costs in excess of net assets, totaling approximately $66,000,000 at December 28, 1974, of companies purchased are being amortized over appropriate periods not exceeding 40 years. Other such costs, totaling approximately $55,000,000, are related to certain companies acquired prior to adoption of Accounting Principles Board Opinion No. 17 in 1970 and are not being amortized since there is no indication that they have diminished in value.

Marketing Costs. Costs of advertising and other marketing and promotional programs are charged to expense during the year generally in relation to sales, and, except for materials in inventory and prepayments, are fully expensed by the end of the year in which the cost is incurred.

Income Taxes. Deferred income taxes arise from timing differences between financial and tax reporting, principally for depreciation and income recognition on certain leases.

Benefits from investment tax credits are amortized over the useful lives of the related assets.

PepsiCo includes the operations of U.S. subsidiaries, except United Beverages Inc. (formerly Rheingold Corp.), in its consolidated federal income tax return. PepsiCo has the policy of having separate subsidiary groups included in its consolidated federal income tax return provide for federal income tax expense as if each group filed its own tax return, but net of investment tax credits, without limitation, attributable to each group. For this purpose, the combined leasing subsidiaries are considered as a single subsidiary group. All deferred taxes in excess of those applicable to financial statement income of the combined leasing subsidiaries are included in deferred income taxes in the consolidated financial statements.

Additional taxes which would result from dividend distributions by foreign subsidiaries to the U.S. parent are provided to the extent dividends are anticipated. All other undistributed earnings of foreign subsidiaries have been reinvested indefinitely in foreign operations. Accordingly, provision has not been made for the additional taxes, not material in amount, that might be payable in the event of remittance of these earnings.

Net Income Per Share. Net income per share is computed by dividing consolidated net income by the average number of common shares and common share equivalents (qualified stock options) outstanding during each year. The conversion of all convertible debentures and Performance Share Plan units would result in a dilution of less than 3%.

Note 2—United Beverages Inc. (formerly Rheingold Corp.) In November 1972, 82% of the outstanding common stock of Rheingold Corp. was purchased in a cash tender offer. At that time, the Federal Trade Commission challenged PepsiCo's acquisition of shares of Rheingold, alleging that it violated certain provisions of the Federal antitrust laws. In January 1974, PepsiCo entered into a consent order with the FTC which settled the antitrust litigation. The consent order principally requires PepsiCo to divest Rheingold's concentrate manufacturing subsidiary, Flavette Corporation, and PepsiCo's St. Louis, Missouri soft drink bottling operations and assets by August 1975. Compliance with this consent order is not expected to have a material adverse effect on the financial position or operations of PepsiCo. In December 1973, the acquisition of the minority interest in Rheingold was completed with the merger of Rheingold and another subsidiary of PepsiCo.

In November 1973, PepsiCo, in a cash tender offer, acquired $13,907,000 of the $15,000,000 principal amount of Rheingold's 6½% Convertible Subordinated Debentures due 1994.

Rheingold's principal activities had consisted of soft

drink (including bottling of PepsiCo products) and brewery operations. At the time of the tender offer in November 1972, PepsiCo announced it had no intention to continue in the brewery business on a long-term basis, and in 1974, Rheingold's brewery operations were sold for no proceeds. The financial results of the brewery operations and their divestiture have been accounted for as an adjustment of the cost of acquiring the soft drink bottling operations.

Note 3—Foreign operations. Total assets and total liabilities of consolidated subsidiaries and branches outside the U.S. and Puerto Rico at December 28, 1974 were $311,924,000 and $144,833,000, respectively. Sales to customers outside the U.S. were $464,046,000 in 1974 and $376,161,000 in 1973. Net foreign exchange gains, reflected in income (before income taxes), including gains on translation and forward exchange contracts were $900,000 in 1974 and in 1973. These gains are before the effects of exchange rate changes on related operating results expressed in U.S. dollars. A translation charge, related to the 6¼ % Swiss franc loan, of $2,466,000 was deferred at December 29, 1973. An additional charge of $4,800,000 was deferred and amortization of $516,000 was recorded in 1974, resulting in a net deferral of $6,750,000 at December 28, 1974 which is included in "Other Assets."

Currency fluctuations subsequent to December 28, 1974 have not had a material effect upon PepsiCo.

In the fourth quarter of 1974 PepsiCo established a provision of $8,300,000 for the discontinuance of a French snack food subsidiary in January 1975. After providing tax effects related to the cost of the investment, there was a charge of $1,500,000 to net income in the fourth quarter. Operating losses had been recorded throughout 1974.

Note 4—Long-term debt. At December 28, 1974 and December 29, 1973, long-term debt (less current installments) consisted of:

	1974	1973
	(in thousands)	
Revolving credit notes	$100,000	$ 58,500
Revolving Eurocredit notes	65,000	—
Floating rate loan notes, 12⅜% at December 29, 1973 (prepaid on February 28, 1974)	—	67,000
8⅝% notes due 1981	75,000	—
6¼ % 60,000,000 Swiss franc loan, due Sw. Fr. 5,000,000 annually from 1984 to 1987 with the balance due in 1988	23,400	18,600
4½ % convertible debentures due 1981	6,858	8,204
4¾ % convertible subordinated debentures due $2,500,000 annually from 1982 to 1995 with the balance due in 1996	50,000	50,000
Other	28,740	20,660
	$348,998	$222,964

Revolving credit notes in 1973 were issued under an agreement with a group of U.S. banks. This agreement was superseded in 1974 by a new agreement under which PepsiCo could borrow up to $100,000,000 until December 31, 1977, at which time PepsiCo may convert outstanding notes to a term loan payable in ten semi-annual installments commencing June 30, 1978. The notes bear interest at the prime rates of the respective lending banks (averaging 10.35% at December 28, 1974) through December 31, 1976, and at slightly higher rates thereafter.

Revolving Eurocredit notes are outstanding under an agreement with a group of foreign banks under which PepsiCo may borrow up to $65,000,000 in Eurodollars or Eurocurrencies until 1980. These notes bear interest at the average London interbank deposit rates plus ½ % (averaging 11.3% at December 28, 1974) through February 28, 1977, with rates subject to renegotiation thereafter. A commitment fee of ½ % per annum is payable on the unused portion of PepsiCo's revolving credit agreements.

In February 1975, PepsiCo issued $100,000,000 of 8¼ % notes due in 1985. The proceeds from this issue were used to reduce short-term borrowings and revolving credit notes. PepsiCo reduced the maximum amount which it can borrow under its revolving credit agreement with the group of U.S. banks from $100,000,000 to $50,000,000.

The note and credit agreements to which PepsiCo is a party include requirements as to, among other things, maintenance of working capital and restrictions on the payment of cash dividends. At December 28, 1974, all such requirements had been met and approximately $88,000,000 of consolidated retained earnings were free of dividend restrictions.

Note 5—Capital stock and capital in excess of par value. Shares reserved at December 28, 1974 were as follows:

Stock options	345,630
4½ % convertible debentures (at $46.50 per share)	147,484
4¾ % convertible subordinated debentures (at $63 50 per share)	787,402
Performance share plan	450,000
	1,730,516

At December 28, 1974, options were outstanding on 315,401 shares (of which 112,626 were then exercisable) having an aggregate price of $21,146,696. The balance of 30,229 shares reserved is available for future grants under the Company's 1969 Plan. In 1974 options for 9,800 shares were exercised having an aggregate option price of $504,725; options were granted for 94,700 shares having an aggregate option price of $5,194,768 and options for 10,500 shares were cancelled.

Under the 1972 Performance Share Plan for key executive employees, the Compensation Committee of the Board of Directors may award up to 450,000 performance share units, each unit being equivalent to a share of PepsiCo capital stock. Once awarded, units are earned only to the extent that PepsiCo achieves stated cumulative growth rates in net income per share over a four-year period. Payments to participants are to be made four years after the

date of the award through issuance of PepsiCo capital stock or payment in cash, or combination thereof, as the Committee decides. During 1972, a total of 81,581 performance share units were awarded of which 77,125 units were outstanding at December 28, 1974. During 1974, a net total of 111,772 units were awarded and outstanding at December 28, 1974. The cost of the awards made under the Plan is being charged to income ($2,307,000 in 1974 and $1,333,000 in 1973) over the applicable four-year period.

The increases in capital in excess of par value for 1974 and 1973 were the excess of proceeds or conversion price over par value of shares issued for:

	Shares		Amount	
	1974	1973	1974	1973
			(in thousands)	
Stock option plans	9,800	89,280	$ 503	$4,041
Conversion of debentures	28,928	30,606	1,265	1,327
Other				(226)
	38,728	119,886	$1,768	$5,142

Note 6—Leases and commitments. PepsiCo and its subsidiaries have commitments for rental of office space, plant and warehouse facilities, vehicular equipment and other personal property. Rental expense in 1974 and 1973 was $18,928,000 and $17,042,000, respectively. Lease commitments expiring at various dates to 2014 have minimum aggregate annual rentals (exclusive of insurance, taxes and repairs) declining from approximately $9,600,000 in 1975 to $5,800,000 in 1979 and lesser amounts thereafter.

At December 28, 1974, PepsiCo and its subsidiaries were contingently liable under loan guarantees aggregating $9,900,000. PepsiCo is also contingently liable for the repurchase of vending equipment acquired by franchisees, on which $2,200,000 was unpaid at December 28, 1974.

Note 7—Income taxes. U.S. and foreign income taxes have been provided at less than the statutory U.S. federal rate of 48% since unremitted earnings of foreign operations are subject to a lower aggregate tax rate. This is principally because earnings of a U.S. subsidiary operating in Puerto Rico (which have been invested in marketable securities) are not taxable.

Prepaid taxes of $12,600,000, including future income tax benefits attributable to the termination of a French snack food subsidiary, are included in "Prepaid expenses" in 1974; in 1973, prepaid taxes of $5,800,000 had been deducted from "Deferred income taxes."

Note 8—Pensions. PepsiCo and its subsidiaries have several non-contributory pension plans covering substantially all domestic employees (mostly non-union) and certain of its employees outside the U.S. PepsiCo's policy is to accrue and fund current cost and interest on prior service cost. Substantially all vested benefits have been funded.

Past service costs were substantially fully funded on an actuarial basis as of January 1, 1974, the date of the most recent actuarial valuation.

PepsiCo also contributes to various union pension plans pursuant to collective bargaining agreements.

Pension expense was approximately $9,000,000 in 1974 and $7,300,000 in 1973.

The Employee Retirement Income Security Act of 1974 is not expected to have a material effect on PepsiCo's consolidated financial statements.

Note 9—Litigation. PepsiCo and its subsidiaries are involved in various litigation matters, but believe that any such litigation will not have a material effect on the consolidated financial statements.

Federal Trade Commission complaints are pending against eight soft drink manufacturers, including PepsiCo and its principal competitors, alleging that the territorial restrictions imposed on franchised soft drink bottlers in the United States unreasonably restrain trade. No monetary damages are sought. Management and counsel cannot evaluate the future financial or business effect, if any, on its domestic concentrate and syrup manufacturing or soft drink bottling business in the event an order is issued declaring such territorial restriction provisions to be illegal and such order is ultimately upheld by the courts.

The Company intends a vigorous defense of these matters.

Note 10—Leasing Subsidiaries. Condensed combined financial statements of the leasing subsidiaries shown below at December 31, 1974 and 1973, and for the years then ended include activities of PepsiCo Leasing Corporation (PLC) and other leasing subsidiaries of PepsiCo. Also included, until dates of their sale, are operations of various subsidiaries which were sold in 1974 and 1973.

Condensed Statement of Financial Position	1974	1973
	(in thousands)	
Cash	$ 18,567	$ 21,230
Leases and contracts and other receivables	250,525	194,096
Rental equipment, less accumulated depreciation (1974—$21,528,000, 1973—$27,345,000)	46,323	58,728
Allowance for possible losses on receivables and rental equipment	(9,859)	(10,315)
Other assets, including intangibles	10,541	7,331
Assets	316,097	271,070
Secured notes payable	37,674	41,392
Other notes payable	174,298	140,158
Accounts payable and accruals	23,760	15,797
Deferred taxes—including investment tax credits	1,261	2,428
Liabilities (excluding those to PepsiCo)	236,993	199,775
PepsiCo equity in leasing subsidiaries	$ 79,104	$ 71,295
Represented by:		
Capital stock and surplus	$ 21,694	$ 21,704
Retained earnings	17,598	14,649
Net worth of leasing subsidiaries	39,292	36,353
Interest-bearing advances payable to PepsiCo	34,058	32,857
Payable to PepsiCo and affiliates	5,754	2,085
	$ 79,104	$ 71,295

Condensed Statement of Income and Retained Earnings	1974	1973
	(In thousands)	
Lease, service and rental income	$61,494	$60,467
Sales and other income	15,062	4,827
Total revenues	76,556	65,294
Depreciation and amortization	9,531	12,449
Interest expense	22,544	16,396
Cost of sales, operating and administrative expenses	42,477	35,287
Total expenses	74,552	64,132
	2,004	1,162
Income from discontinued operations	—	646
Income before provision for U.S. and foreign income taxes	2,004	1,808
Provision for U.S. and foreign income taxes (less investment tax credit: 1974—$1,857,000; 1973—$1,025,000)	(1,017)	(139)
Income before extraordinary items	3,021	1,947
Extraordinary items—net of federal income tax of $358,000	—	1,058
Net income	3,021	3,005
Retained earnings at beginning of year	14,649	12,033
Dividends paid	(72)	(389)
Retained earnings at end of year	$17,598	$14,649

Condensed Statement of Changes in Cash	1974	1973
	(in thousands)	
Cash Provided (Applied):		
Operations:		
Net income	$ 3,021	$ 3,005
Depreciation and amortization	9,531	14,037
Deferred income taxes	(1,116)	22
Gain on sale of investment and equipment	(428)	(1,416)
Provision for losses on receivables and rental equipment over (under) actual losses incurred	(456)	2,447
Advances from (to) PepsiCo	5,544	(3,902)
Property and equipment disposals	17,999	12,896
Property and equipment acquired	(30,003)	(31,560)
Sale of operations	13,755	27,357
Leases and contracts and other receivables, net	(56,429)	(22,215)
Notes payable, net	30,422	7,778
Accounts payable and accruals, and other	5,497	(2,165)
Increase (decrease) in Cash	$ (2,663)	$ 6,284

Notes to Condensed Financial Statements

a. Accounting Policies. Income earned on leases and contracts receivable is recognized over their terms on a declining basis in proportion to the related outstanding amounts receivable under the finance lease method of accounting. For certain of these leases, a portion of total lease income is recognized upon lease commencement to offset estimated lease acquisition expenses incurred; such amounts related to operations, other than those shown as discontinued operations, for the years ended December 31, 1974 and 1973 were $5,312,000 and $2,788,000, respectively. Under lease agreements involving rental equipment, the operating method of accounting is used. Rental income is recognized principally as rentals become due, less related depreciation.

Other accounting policies of the leasing subsidiaries are similar to PepsiCo's—see Note 1.

b. In 1973, PLC terminated its agreements with certain equipment manufacturers and sold related rental equipment back to such manufacturers for $23,813,000 (including $8,706,000 of notes and other assets) at a net extraordinary gain of $234,000 after taxes. It also sold its minority investment in a foreign leasing company for $3,544,000 which resulted in an extraordinary gain of $824,000 after taxes. Pre-tax results of operations sold in 1973 are presented as income from discontinued operations. Revenues from these discontinued operations until dates of their sales were $3,405,000.

As of January 1, 1974, PLC terminated agreements with certain other equipment manufacturers and sold related rental equipment back to such manufacturers for $13,755,000 (including $3,201,000 of notes and other assets) at a gain of $428,000 before taxes. While the condensed statement of income and retained earnings reflects the pre-tax results of operations sold in 1973 as income from discontinued operations, similar presentation for the operations sold in 1974 is not permitted under Accounting Principles Board Opinion No. 30, which is effective for transactions occurring after September 30, 1973; accordingly, the results of these operations are included with the results of the leasing subsidiaries' continuing operations. In addition, the criteria for the types of items to be reported as extraordinary items were changed by this Opinion, and the gains on sales of this type, which had been reported as extraordinary items in 1973, are included in "Sales and other income" in 1974.

Revenues and income before income taxes in 1973 for these operations sold in 1974 were $6,268,000 and $681,000, respectively.

c. Transactions with PepsiCo included in continuing operations were: revenues—$1,392,000 in 1974 and $1,079,000 in 1973; purchases of services—$2,517,000 in 1974 and $2,621,000 in 1973; interest paid on advances and subordinated notes—$2,640,000 in 1974 and $2,340,000 in 1973, and expenses of Pepsi-Cola Equipment Corporation (PCEC) charged to PepsiCo—$1,211,000 in 1974 and $1,319,000 in 1973. Interest bearing advances payable to PepsiCo include subordinated notes of $30,000,000 in 1974 and $32,500,000 in 1973, due principally in 1983. PepsiCo guaranteed notes payable of PCEC totaling $19,288,000 at December 31, 1974 and $20,100,000 at December 31, 1973. PCEC is engaged in providing leasing and financing services to Pepsi-Cola franchise bottlers.

d. Secured notes, which bear interest between 5% and 14½%, are payable to banks and others and are collateralized by the pledge of related leases and contracts receivable and rental equipment, and assignment of future receipts on certain leased rental equipment. Maturities of such notes are generally the same as maturities of related leases and contracts receivable.

Other notes payable consist of:

	Dec. 31, 1974	Dec. 31, 1973
	(in thousands)	
PLC Revolving Credit Notes	$130,000	$107,900
Short-term unsecured notes	24,250	10,500
Commercial paper—PCEC	19,288	10,100
Revolving credit notes—PCEC	—	10,000
Sundry	760	1,658
	$174,298	$140,158

PLC Revolving Credit Notes are outstanding under an unsecured bank financing agreement under which PLC may borrow up to $130,000,000 during a one-year revolving credit period (renewable annually), and at the end of the revolving credit period, borrowings are convertible into a five-year term loan payable in equal quarterly installments. Borrowings bear interest at ¼% over the prime rate during the revolving credit period and the first year of the term period, and at slightly higher rates thereafter. The agreement provides for a minimum borrowing base and a debt-to-equity ratio as a condition for loans, and restricts granting of liens and security interests, and dividends and other distributions.

On January 31, 1975, PLC renewed $113,000,000 of the revolving credit portion of its bank financing agreement for an additional year, converted $15,000,000 of notes into five-year term loans payable in equal quarterly installments, and repaid $2,000,000.

There were no material compensating balance requirements except for those of PLC which, under the bank financing agreement, had an informal agreement with its banks to maintain average compensating balances, equal to 15% of outstanding borrowings (20% on the renewed revolving credit) plus 10% for the unused portion.

Report of Certified Public Accountants

Board of Directors and Shareholders
PepsiCo, Inc.

We have examined the accompanying consolidated balance sheet of PepsiCo, Inc. and subsidiaries at December 28, 1974 and the related consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously made a similar examination of the financial statements for the prior year.

In our opinion, the statements mentioned above present fairly the consolidated financial position of PepsiCo, Inc. and subsidiaries at December 28, 1974 and December 29, 1973 and the consolidated results of their operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis during the period.

Arthur Young & Company

277 Park Avenue
New York, N.Y.
February 24, 1975

Five-Year Comparative Summary	1974	1973	1972	1971	1970
Summary of Operations* (In thousands except per common share)					
Net sales and other operating revenues	**$2,080,759**	$1,697,924	$1,400,115	$1,239,127	$1,122,593
Cost of sales and services	**1,193,025**	930,717	749,254	670,751	613,122
Marketing, administrative and other expenses	**715,347**	612,114	516,244	446,196	402,968
Interest expense	**41,079**	24,434	14,351	14,675	13,819
Interest income	**(14,575)**	(10,195)	(7,158)	(5,291)	(4,557)
	1,934,876	1,557,070	1,272,691	1,126,331	1,025,352
	145,883	140,854	127,424	112,796	97,241
U.S. and foreign income taxes	**61,485**	64,263	58,241	50,583	41,200
	84,398	76,591	69,183	62,213	56,041
Equity in net income of leasing subsidiaries	**3,021**	3,005	2,535	818	12
Net income	**87,419**	79,596	71,718	63,031	56,053
Per common share	**$ 3.69**	$ 3.36	$ 3.05	$ 2.71	$ 2.49
Cash dividends paid	**30,826**	26,968	23,324	22,895	22,594
Per common share	**$ 1.30**	$ 1.14	$ 1.00	$ 1.00	$ 1.00
Additions to property, plant and equipment	**104,963**	87,957	56,632	54,047	63,442
Depreciation and amortization	**48,001**	41,634	33,996	30,077	26,030
Average common shares outstanding	**23,710**	23,664	23,525	23,248	22,547
Year-End Position (In thousands except per common share)					
Working capital	**287,006**	148,433	148,017	150,016	97,165
Equity in leasing subsidiaries	**79,104**	71,295	72,192	89,376	76,348
Property, plant and equipment—net	**431,050**	376,139	322,828	301,928	274,038
Total assets	**1,380,029**	1,149,664	935,552	833,802	757,895
Long-term debt	**348,998**	222,964	207,053	198,176	177,514
Shareholders' equity	**556,926**	498,558	440,768	384,032	331,240
Per common share	**$ 23.48**	$ 21.05	$ 18.70	$ 16.43	$ 14.58
Common shares outstanding	**23,723**	23,684	23,564	23,372	22,715
Statistics and Ratios					
Current assets to current liabilities	**1.7 to 1**	1.4 to 1	1.6 to 1	1.8 to 1	1.5 to 1
Return on shareholders' equity	**15.7%**	16.0%	16.3%	16.4%	16.9%
Return on sales (incl. leasing operations)	**4.1%**	4.5%	4.9%	4.8%	4.7%
Employees	**49,000**	49,000	40,000	37,000	36,000
Shareholders	**44,000**	46,000	46,000	47,500	49,000

*The summary of operations includes consolidated results for PepsiCo and all domestic and foreign subsidiaries. United Beverages Inc. (formerly Rheingold Corp.), acquired in late 1972 has been included since 1973; Monsieur Henri Wines, Ltd., has been included since 1971.

Net sales and other operating revenues increased by 21% in 1973 reflecting significant unit volume increases; excluding United Beverages Inc. (which was consolidated for the first time), the increase would have been 15%. Price increases in domestic and certain foreign operations were controlled by government regulations from 1972 through early 1974. In 1974, total revenues increased 23%; overall unit volume continued to increase but at a lower rate slightly below the percentage increase in net income.

Increases in 1973 in cost of sales and services and marketing, administrative and other expenses reflected a higher level of business activity and the inflationary effects on costs related to material, labor, related fringe costs and other overhead items. Sharp cost increases, primarily in the prices of agricultural and packaging materials, caused production costs to increase more rapidly than revenues throughout 1974. To date, PepsiCo has generally been able to pass along commodity cost increases to its customers and this ability may or may not continue. Declines in the prices of such commodities could adversely affect income from such products to the extent that PepsiCo may have acquired such commodities for future production at higher prices.

Included in the fourth quarter of 1974 is a provision of $8.3 million for the discontinuance, in January 1975, of a French snack food subsidiary which had incurred operating losses throughout 1974; after providing related tax effect, there was a charge of $1.5 million to net income resulting from such discontinuance. The decision to discontinue snack food operations in France was primarily the result of a declining snack market and high trade discounts and rigid price controls which would not allow this operation to cover its high inflationary costs.

The effects of all of the factors discussed above were offset in part by stringent control over marketing, administrative and other expenses which have decreased as a percentage of net sales and revenues since 1972.

The increase in net interest expense in 1973 reflected additional borrowings required for higher working capital needs associated with revenue increases, higher levels of capital expenditures, debt associated with the Rheingold acquisition, and higher interest rates prevailing throughout the year. The increase in net interest expense for 1974 is due to sharply higher interest rates and debt levels, primarily as a result of increased working capital needs.

United States and foreign income taxes were 45.6% of income before such taxes in 1973 and 42.1% in 1974. The decrease in the effective tax rate is caused primarily by the relatively larger proportion of earnings of certain foreign operations which are subject to an aggregate tax rate of less than 48%.

PepsiCo, Inc. Directors

Donald M. Kendall*
Chairman of the Board and Chief Executive Officer, PepsiCo, Inc.

Herman W. Lay*
Chairman of the Executive Committee, PepsiCo, Inc.

Andrall E. Pearson*
President, PepsiCo, Inc.

Victor A. Bonomo
President and Chief Executive Officer, Pepsi-Cola Company and Vice President, Beverage Operations (U.S.), PepsiCo, Inc.

T. Vincent Learson*†
Member of the Board of Directors and of the Executive and Finance Committees, International Business Machines Corporation

Harold R. Lilley
President, Frito-Lay, Inc. and Vice President, Food Operations (U.S.), PepsiCo, Inc.

James M. Roche*†
Member of the Board of Directors and Finance Committee, General Motors Corporation

Herman A. Schaefer
Executive Vice President, Finance and Administration, PepsiCo, Inc.

Robert H. Stewart III*†
Chairman of the Board, First International Bancshares, Inc.

Peter K. Warren
President, PepsiCo International and Vice President, International Operations, PepsiCo, Inc.

*Member of Executive Committee
†Member of Audit Committee

Executive Offices

PepsiCo, Inc.
Purchase, New York 10577

Principal Divisions and Subsidiaries:
Pepsi-Cola Company
Purchase, New York 10577
Victor A. Bonomo, *President*

Frito-Lay, Inc.
Frito-Lay Tower, Exchange Park,
Dallas, Texas 75235
Harold R. Lilley, *President*

Monsieur Henri Wines, Ltd.
131 Morgan Avenue,
Brooklyn, New York 11237
Maurice Feinberg, *President*

PepsiCo International
Purchase, New York 10577
Peter K. Warren, *President*

PepsiCo Leasing
101 Hartwell Avenue,
Lexington, Massachusetts 02173
Stillman B. Brown, *President*

PepsiCo Transportation
1925 National Plaza, Tulsa, Oklahoma 74151
Richard J. Caley, *President*

Wilson Sporting Goods Co.
2233 West Street, River Grove, Ill. 60171
Thomas P. Mullaney, *President*

Foods International
Purchase, New York 10577
John Sculley, *President*

Annual Meeting
The Annual Meeting of stockholders will be held at the offices of the Corporation, Purchase, New York, at 10:00 a.m. (E.D.T.) Wednesday, May 7, 1975. Proxies for the meeting will be solicited by management in a separate Proxy Statement. This report is not a part of such proxy solicitation and is not to be used as such.

Officers

Donald M. Kendall
Chairman of the Board and Chief Executive Officer

Herman W. Lay
Chairman of the Executive Committee

Andrall E. Pearson
President

Herman A. Schaefer
Executive Vice President, Finance and Administration

Robert J. Abernethy
Vice President, Manufacturing

Victor A. Bonomo
Vice President, Beverage Operations (U.S.)

Richard J. Caley
Vice President, Transportation

D. Wayne Calloway
Vice President, Financial Management and Planning

Cartha D. DeLoach
Vice President, Corporate Affairs

Gerald J. Fischer
Vice President, Corporate Development

Edward V. Lahey, Jr.
Vice President, General Counsel and Secretary

Harold R. Lilley
Vice President, Food Operations (U.S.)

Harvey Luppescu
Vice President, Tax Administration

Thomas P. Mullaney
Vice President, Sporting Goods

Joseph Neubauer
Vice President, Treasurer

Harvey C. Russell
Vice President, Community Affairs

Peter K. Warren
Vice President, International Operations

I. M. von der Heyden
Controller

Vincent M. Burke
Assistant Controller

C. Robert Smelas
Assistant Controller

W. Lamar Lovvorn
Assistant Secretary

Walter S. Rosenstein
Assistant Secretary

Jerome T. Dilettuso
Assistant Treasurer

William T. Leitner
Assistant Treasurer

William R. Lewis
Assistant Treasurer

Auditors

Arthur Young & Company
277 Park Avenue, New York, New York 10017

Transfer Agents
Marine Midland Bank—New York
485 Lexington Avenue,
New York, New York 10017
(212) 692-3120

First Jersey National Bank
One Exchange Place,
Jersey City, New Jersey 07303
(201) 333-1300

First National Bank in Dallas
P.O. Box 6031, Dallas, Texas 75283
(214) 744-8464

Registrars

The Chase Manhattan Bank N.A.
1 Chase Manhattan Plaza,
New York, New York 10015
(212) 552-2222

First National Bank in Dallas
P.O. Box 6031, Dallas, Texas 75283
(214) 744-8464

Shares of PepsiCo, Inc., capital stock are listed and traded on the New York and Midwest Stock Exchanges.

Copies of the Corporation's Form 10-K Report to the Securities and Exchange Commission may be obtained without charge from the Director of Corporate Communications, PepsiCo, Inc., Purchase, N.Y. 10577.

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Paso de los Toros
AGUA TONICA
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INDUSTRIA ARGENTINA

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A1010
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Major League
Specifications

ROLD GOLD
BRAND

A MONSIEUR HENRI SELECTION
Fu-ki Plum
A PLUM WINE WITH PLUM AND OTHER NATURAL FLAVORS.

northAmerican
VAN LINES

PEPSI

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CHATEAU HAUT-BRION
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Wilson

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REG'D.

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NFL

Fritos
BRAND
GREEN
ONION
dip

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PRODUCT OF ENGLAND
ESTABLISHED
1740

Wilson
Wilson 2

Munchos
BRAND
potato crisps

orange

PepsiCo, Inc., Purchase, New York 10577